Crown Corporation
Business Plans
for the fiscal year 2015–2016

Nova Scotia Farm Loan Board
Business Plan 2015–2016

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Message from the Minister and the Board Chair

We are pleased to present the Nova Scotia Farm Loan Board business plan for 2015–2016. The plan outlines the board's goals and priorities for the coming year in line with its mission and mandate.

The primary focus of the board continues to be the provision of agricultural financing and of credit counselling in order to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.

The Honourable Keith Colwell, Minister
Nova Scotia Department of Agriculture

Arnold Park, Chair
Nova Scotia Farm Loan Board

Mission

The Nova Scotia Farm Loan Board supports the development of agriculture and agri-rural business in Nova Scotia through responsible lending.

Vision

The Nova Scotia Farm Loan Board is a leader in agricultural lending, creating opportunities in rural Nova Scotia.

Mandate

The mandate of the Farm Loan Board is to support the agricultural industry through the provision of long-term, fixed-rate lending products to those clients demonstrating sound business fundamentals and commitment to the future growth and sustainability of the industry.

The board operates as a corporation of the Crown under the authority of The Agriculture and Rural Credit Act. The act was initially proclaimed in 1989 and amended December 2011 to modify the number and terms of service of directors and to clarify the board's powers and processes. This act provides authority to the board to make or guarantee loans for the purpose of acquiring or improving any farm, plant, machinery, or equipment; to acquire, hold, and dispose of farms, buildings, livestock, machinery, quota, and lands; to collaborate with the Department of Agriculture personnel; and to take on other purposes, duties, and powers as the minister approves.

The board functions as the Timber Loan Board (for loans to forest-product mills) as well as the Nova Scotia Farm Loan Board. The Timber Loan Board's authority is from regulations made pursuant to the *Revised Statutes of Nova Scotia, 1989*, The Forest Act, in Section 20 of Chapter 179. The Forest Act provides for credit to acquire forested land for forest-product mills and establishes the Timber Loan Board, using the same chairman, members, and staff as the Nova Scotia Farm Loan Board.

Our History

Active since 1932, the Nova Scotia Farm Loan Board is an agricultural development agency acting to build greater prosperity. It supports agricultural and rural business development by providing long-term loans at fixed interest rates and financial counselling services. A corporation of the Crown, the board collaborates with the Nova Scotia Department of Agriculture. The board's mandate includes operation as the Timber Loan Board in dealing with applicable loans.

Availability of credit with stable term rates or rates fixed for the full amortization period and understanding the agricultural industry, including cyclical swings in profitability, are considered to be strengths of the board in encouraging development of this industry.

At last year-end (March 31, 2014), the board's loan portfolio totalled $179 million in loan principal. Timber loans provided to forest mills to ensure a sustainable wood supply totalled $1.8 million for the forest industry. Primary stakeholders in both the Nova Scotia Farm Loan Board and Timber Loan Board roles include individual and potential borrowers and the province, in particular the Departments of Agriculture, Natural Resources, and Finance

and Treasury Board. Other important stakeholders include the Nova Scotia Federation of Agriculture and the various commodity groups, commercial lenders, equipment and feed suppliers, the wholesale and retail sectors for products produced in Nova Scotia, and others concerned with economic development in rural areas.

Planning Context

External Context

In general

The agricultural industry is affected by weather and by conditions in competing regions, which may affect general price levels for commodities produced, as well as by market conditions, including the effects of branding, consolidation and national purchasing, and market access. Weather conditions and any change in expected patterns present an obvious concern to agriculture.

We continue to see a trend toward fewer, larger farms – a trend particularly noticeable in the dairy and poultry sectors. The succession of farms and intergenerational transfers is a priority for the industry. Changing technology, food safety concerns, and implementation of related health protection measures are common challenges.

Technology is providing for increased mechanization and automation and is being felt in a wide range of applications. This trend is supporting a broader trend toward consolidation of agricultural operations into larger units, in attempts to gain efficiency through economies of scale. In most sectors, entry as a producer involves significant initial cost for specialized buildings and equipment and quota (for supply-managed sectors). Larger operations and high start-up costs present difficulties to new entrants and for intergenerational transfer of family businesses, and these difficulties must be addressed.

Producers must be constantly aware of environmental concerns, and they must maintain up-to-date skills, procedures, and facilities and equipment to meet today's standards and regulatory requirements. The increasing public desire to buy locally produced food is a positive development, improving opportunities within the province for producers of many commodities.

Through the development of sound lending practices and comprehensive financial analysis and risk assessment tools, the mandate of the Farm Loan Board will focus primarily on the provision of long-term and term-fixed lending in support of new producers and other higher-risk borrowers demonstrating sound business fundamentals and incremental contribution to the growth of the agricultural industry in Nova Scotia.

Interest rates

Interest rates have remained low during the fiscal year. The Bank of Canada maintained its key policy rate at 1 per cent (unchanged since October 2010), until March when it was reduced to 0.75 percent. Low rates have benefited producers by expanding the range of potential funding sources and allowing earlier repayment. In some cases, amounts borrowed may be higher because of these lower-than-usual rates.

Requirements for board financing are influenced by levels of investment in agriculture and timber businesses, rates of capitalization, general economic conditions, and the availability of funding from commercial lenders. The board continues to offer fixed-interest loans with rates fixed for the full amortization period of the loan, but it also provides three-, five-, and ten-year terms on loans amortized over a longer term. Other loan options may be considered for implementation during 2015–2016, such as variable-rate loans to support short-term and accumulating requirements such as those for quota purchase.

Lending demand

Total new loan advances have ranged between $17 million and $30 million over the past 10 years. We expect that over the coming year, requirements will be in the upper end of that range. The capital authority of $35 million is expected to provide flexibility in responding to client borrowing needs in 2015–2016.

The board will seek to operate on a cost-effective basis and meet client credit needs, providing credit services, support to new entrants, analyzing risk, and collaborating with departments and industry. The board intends to remain flexible in its approach and will be open to development, loan products, or ventures that will assist agricultural development in this province.

Ongoing Planning Focus

Lending

The board understands its role to be in support of the long-term viability and development of agriculture in Nova Scotia through lending. The primary role is to ensure that loan financing is available to clients who have a reasonable likelihood of success but are unable to obtain financing at reasonable rates because they are new, they participate in a sector that has cycles of profitability, or they find, for other reasons, that banks are tightening credit.

The board also lends to clients who may have access to commercial lending. It does this to provide stability in the availability of funds and in interest rates by offering fixed rates for up to 30 years. This allows those successful clients to continue a financing relationship that may span many years and to build into their risk profile the stability that comes with a lender that has a long-term commitment to agriculture and offers fixed rates and patience during poor business cycles.

The board may on occasion act to assist agribusinesses or clients who experience financial difficulties when dealing with a commercial lender, even though the business itself appears viable, given patience, and any lending losses already experienced are borne by the initial lender.

Lending program services will meet these objectives by providing knowledge of agriculture, long-term client relationships, a client focus in developing and providing services, flexibility in lending services and repayment, counselling services, support for new entrants, and long-term lending.

When it is possible to broaden services available to clients by collaboration with other local lenders, joint lending relationships will be pursued. Assistance to new entrants and counselling for all clients continue to be important elements of the lending program. Many clients have indicated that they would prefer additional flexibility in loan options available from the board, possibly variable rates and asset-

secured operating or working-capital loans. In response to the need for short-term funding by our clients, the board has signed a Memorandum of Understanding with the Nova Scotia Co-operative Council under the Small Business Loan Guarantee Program. Credit unions can provide financing (term loans, lines of credit, and working capital) up to $500,000. Interest rates are negotiated between the applicant and the credit union. A credit union is required to take security to protect the value of the loan. The board will lend so as to support success in agriculture while continuing to bear in mind the current economic environment.

While ability to repay remains the basic criterion for granting loans, sound environmental and business planning practices and procedures will continue to be considerations, as required for industry and individual growth and sustainability.

The risk manager function, initiated during 2011–2012, has improved risk analysis and loan criteria, and has been made a part of the board's ongoing loan approval process. The board will continue to work toward strengthened lending and management information to meet lending, decision-making, and financial reporting requirements.

Strategic Goals

The following goals have been developed to meet the board's mandate and at the same time support the established goals of the Province of Nova Scotia (Prosperous businesses of all sizes – creating jobs across the province; Responsible fiscal management).

1. Growth in the Rural Economy

- By supporting growth in terms of new participants, new innovative products and ideas, and new methods of production, accepting that these entail relatively high risk, by ensuring access to stable, cost-effective, asset-backed developmental credit.
- By providing flexible loan products adapted to the needs of the agricultural industry.
- By supporting development of production for export, noting that goal 15 of the oneNS report of the Nova Scotia Commission on Building Our Economy (February 2014) calls for a doubling of exports from agriculture by 2024.

2. Growth and new participants in agriculture

- By providing support at the development and entry level of farming operations so as to ensure that the agricultural industry will be maintained and have an opportunity to grow.

Core Business Areas

Support for Departmental Priorities

Board activities support prosperous businesses in rural areas in line with the vision and principles identified in the Department of Agriculture's 10-year plan, *Homegrown Success*.

Stable access to loan financing at reasonable rates improves *sustainability* during fluctuations in economic and market conditions. Throughout the lending decision making itself, board staff use their experience to influence client plans for favorable results.

The board is committed to *collaboration* with other service providers and lenders when this will improve services available to clients.

An element of the board's portfolio is intended to support *growth* in terms of new participants, *innovation* in products and ideas, and new methods of production even though these tend to be of relatively high risk. Additional loan products may also be considered in order to meet financing needs of these growth opportunities.

While growth demands that an element of risk be accepted, the board seeks to ensure that loans are issued to successful businesses that will generate profits and repay those loans. Loan officers seek to ensure that projects approved for a loan will result in a *measureable improvement* to the business concerned, and the board seeks to provide, overall, a financing environment that sustains improvement.

All loans are issued at rates intended to cover the financing costs to the province and contribute to operating costs and losses on defaulted loans.

Loan issuance and recovery policies are designed to serve the public interest by supporting growth and development while minimizing costs.

Core Business Area 1: Lending

Providing flexible, asset-based credit for the development of agricultural businesses is the primary mandate of the Farm Loan Board. This includes loan product development, loan service development, client service and administration, and efficient and responsible financial management. It also includes financial analysis and counselling. Financial counselling is provided by loan officers as a component of loan-analysis meetings with clients and potential clients and includes assessment of projects under consideration. Loan officers assist in sourcing the best available credit.

By providing a reliable source of flexible, asset-financed credit, the board directly provides for development and growth of the agricultural and timber industries and indirectly influences credit availability at reasonable rates through its influence on, and partnership with, other participants in the lending industry.

New loan requests and approvals were down during 2014–2015, although new loans advanced remained high as loans approved in the previous year were disbursed. Loan demand is expected to pick up in 2015–2016. Loan requirements are affected by the availability of credit and the rates available from commercial lenders, developments within the industry, and expectations about future interest rates.

Core Business Area 2: Programs Administration

Administration of the FarmNext program will be transferred to the Department of Agriculture's Programs and Risk Management section effective April 1, 2015. The board will continue to give special consideration in evaluating loan requests from new entrants.

Priorities for 2015–2016

Lending

Provide up to $35 million of new loan capital to the agricultural and timber industries in the 2015–2016 fiscal year.

Lending capacity to this level will help to ensure that the industry has access to stable, cost-effective credit and will allow for lending to support development of farms to ensure sustainability, to improve efficiency, to adapt to new technology and improve profitability, and to support growth and entry of new farming operations. During 2014–2015, the board is forecast to advance $28 million and receive principal repayments of $20 million, with $1.6 million submitted for adjustment as unrecoverable. Actual lending requirements vary from year to year depending on opportunities identified.

To promote understanding of the flexibility available to clients, the board has developed specifically targeted and identified loan product offerings, reducing reliance on individual customization without limiting current options.

Credit Counselling and Risk Management

The board places importance on maintaining an understanding of agriculture, the development of relationships with clients and understanding their needs, flexibility in dealing with individual circumstances, confidential credit counselling services, and specific loan product offerings.

Accounts are managed so that write-offs and arrears conditions are monitored and minimized in relation to the portfolio size while supporting industries and individuals through cyclical downturns and working toward the best outcome for all parties.

This approach includes accurate and appropriate appraisal and evaluation of security arrangements for loans, monitoring arrears, and financial counselling, particularly for new clients and clients identified as having financial difficulty.

Lending will continue to be directed toward viable enterprises and projects (with potential to repay and acceptable security to support the loan). During financially difficult times, the board is committed to assisting those operations that appear to have a long-term future and a commitment to meet their obligations. This may include deferral of payments, restructuring of debt, financial counselling, and referral to other relevant services.

The board will provide credit counselling and follow-up for clients with repayment difficulties.

The independent credit risk assessment position has been demonstrated to add significant value to board decisions and will be funded on a permanent basis.

Support New Farmers

The board recognizes the importance of assisting new entrants to agriculture. It will do so by providing guidance and advice, working with other staff and programs of the department, and funding projects with viable business plans but limited experience.

Budget Context

Nova Scotia Farm Loan Board Operational Income Statement

	Estimate 2014–15 ($ 000)	Forecast 2014–15 ($ 000)	Estimate 2015–16 ($ 000)
Revenue			
Interest	7,800	7,347	7,400
Life Insurance revenue (1)	20	26	20
Fee revenue / recoveries	375	225	210
Total revenue	**8,195**	**7,598**	**7,630**
Expenses			
Interest	5,800	5,409	5,500
Operating expenses	1,601	1,596	1,612
Bad-debt expense	253	417	253
Total expenses	**7,654**	**7,423**	**7,365**
Net income (loss)	**541**	**131**	**265**
Transferred to the province	(541)	(131)	(265)
Remaining	**0**	**0**	**0**

Notes:

See year-end annual reports for complete financial information and notes (https://novascotia.ca/farmloan/corporate/).

Interest expense is established under terms of a Memorandum of Understanding arranged with the Department of Finance.

See notes for the following Capital Funds table.

Capital Funds

	Estimate 2014–15 ($ 000)	Forecast 2014–15 ($ 000)	Estimate 2015–16 ($ 000)
Opening principal	177,721	179,355	185,748
Add loan advances	35,000	28,000	35,000
Less repayments	(23,000)	(20,000)	(23,000)
Less principal written off	(3,000)	(1,607)	(3,000)
Closing principal	**186,721**	**185,748**	**194,748**
Provision for impaired accounts			
Opening provision	9,227	9,992	8,802
Less accounts written off	(3,000)	(1,607)	(1,000)
Additions (principal portion of bad-debt expense +/– adjustments)	253	417	500
Closing allowance	**6,480**	**8,802**	**8,302**
Net portfolio at year-end	**180,241**	**176,946**	**186,446**

Notes:

The board funds loans by arranging financing through the Department of Finance for terms similar to loans issued on a quarterly basis.

Accounting adjustments are subject to the approval of the Department of Agriculture. The board is assigned budgetary authority through the department and is required to conform the forecast and estimate authority to the amount assigned. Authority assigned for fees, operations, and bad-debt expense is based on funding availability.

Significant portions of the board's expenses, most bad-debt expense, are variable, somewhat unpredictable, and beyond short-term control. Under a new contract arrangement for the life insurance program, the insurance carrier collects premiums directly and assumes all risk and benefits related to annual results.

Total staff (FTEs)	17.3	17.3	17.3

Outcomes and Performance Measures

Core Business Area *Lending*

Outcome	Measure and Rationale	Base Year Data	Targets	Trends	Strategies to Achieve Target
Growth in the rural economy	Total new funds advanced during the year (in millions) – as a measure of new economic activity	2012: $21.1 million	2014–15: $30 million 2015–16: $30 million	2010–11: $27.8 million 2011–12: $21.1 million 2012–13: $26.4 million 2013–14: $31.1 million 2014–15: $28.0 million	Continue to provide loan financing to clients who have a reasonable likelihood of success. Continue to develop additional loan products to meet client needs, including clients with lower inherent risk and less likelihood of loss. Ensure that lending information is readily available to those seeking credit, through the website, publicity, and participation in producer meetings as well as directly through the loan officers.
Increase in stable successful clients	Total arrears as percentage of value of all account – as an indication of client strength	2006–07: 3.7%	2014–15: 4.3% or less 2015–16: 4.3% or less	2010–11: 4.7% 2011–12: 4.9% 2012–13: 4.4% 2013–14: 4.3% 2014–15: 4.9% forecast	A protracted legal case has prevented the board from dealing with one case with significant arrears. The special credit section will continue working with clients in arrears or experiencing difficulty to achieve the best chance of success in the long term (see arrears strategies above). Monitor account status, contacting clients in arrears and referring them to industry resources where appropriate. Maintain contact and work with client and work out arrangements for payment. Include larger arrears accounts in annual review process. Strengthen new-loan approval review, using the Risk Manager position. Arrears and defaulted accounts will vary from year to year depending on performance of the various agricultural sectors represented in the board's loan portfolio. Working with clients to achieve the best long-term outcome is the board's primary goal. Continue to improve a balance of high-risk and lower-risk clients by broadening loan products available to meet a range of requirements. Clear up existing accounts in process for recovery, subject to legal procedures, fairness processes, and timing necessary to achieve the best value.

Core Business Area *Lending*

Outcome	Measure and Rationale	Base Year Data	Targets	Trends	Strategies to Achieve Target
Effective service, financial credit, & industry advice leading to enhanced business growth	Combined results for courtesy, promptness, knowledge, and commitment on client survey – as a measure of attention & service provided to the client leading to business growth (Note: It is anticipated that the survey used as a basis for this measure will be revised during the year to improve its relationship to the outcome measured.)	2000–01: 92%	2014–15: 90% or above 2015–16: 90% or above	2010–11: 93% 2011–12: 98% 2012–13: 90% 2013–14: 91% 2014–15: 93% forecast	Monitor survey results. Review procedures for efficiency gains. Work to improve promptness score by monitoring in-office processing time.

Board of Directors

The board currently consists of the following directors, with successful careers in agriculture and business, who govern policies, receive reports on operations and clients, and provide strategic direction for the board.

Directors

Chair: Arnold Park. Arnold was appointed to the Nova Scotia Farm Loan Board effective May 1, 2012, for a term expiring April 30, 2015. He has over 40 years of progressive business experience in the agriculture and agri-food industry, including a 10-year term as president & CEO of McCain Foods, Canada. He has a strong background in management, financial, and marketing, having been involved in the wine industry, food processing, corporate farming, and crop contracting.

Director: Greg Sheffer. Greg was appointed to the Nova Scotia Farm Loan Board February 24, 2012, for a term expiring February 24, 2015. He has extensive experience in the financial industry. Greg is a senior wealth advisor and director of Scotia McLeod in Halifax. He has his MBA, FCSI, and B.Sc. in agriculture. He is past chairman of the Nova Scotia Cattle Producers Association and past member of AgraPoint and numerous community volunteer organizations.

Director: Jim MacAfee. Jim was appointed to the Nova Scotia Farm Loan Board September 15, 2012, for a term expiring September 14, 2017. Jim has extensive experience as a farm operator, business owner, and Atlantic Canada representative for North America Fur. He is currently the owner and operator of Furafee Trading Co., a fur collection and trading supply catalogue mail order business, as well as the Atlantic representative for the Hudson's Bay Company. Jim is a graduate of the NSAC.

Director: Lee Thompson. Lee was appointed to the Nova Scotia Farm Loan Board September 15, 2012, for a term expiring September 14, 2017. With his family, Lee currently operates Forest Glen Greenhouse Limited. Lee has a background in environmental planning and resource planning. He worked for the Town of Truro for a number of years doing liaison management between local business owners and all levels of government. He has a special interest in agriculture and mentoring young entrepreneurs.